

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00

COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05 L-03

LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05 SS-15

STR-07 ITC-01 TRSE-00 USIA-06 SP-02 SOE-02 OMB-01

DOE-15 GSA-02 /123 W

-----073997 211928Z /46

R 211717Z MAR 78

FM AMEMBASSY ROME

TO SECSTATE WASHDC 1465

INFO AMEMBASSY BONN

USMISSION GENEVA

AMCONSUL GENOA

AMEMBASSY LONDON

AMCONSUL MILAN

AMCONSUL NAPLES

AMEMBASSY PARIS

AMEMBASSY THE HAGUE

AMEMBASSY BRUSSELS

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USEEC ALSO FOR EMBASSY

E.O. 11652: /A

TAGS: ETRD, EIND, IT

SUBJECT: STEEL ASSOCIATION OFFICIAL COMMENTS ON TRENDS IN ITALIAN
STEEL INDUSTRY

REF: ROME 2276

SUMMARY. STEEL ASSOCIATION OFFICIAL, WHILE CONCEDED THAT
STEEL PRICES HAD RISEN VERY SLIGHTLY, ORDERS HAD IMPROVED
TEMPORARILY AND STEEL IMPORTS SHOWED SIGNS OF SLOWING,
NEVERTHELESS PAINTED GENERALLY PESSIMISTIC PICTURE OF
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CONTINUING FINANCIAL LOSSES FOR ALMOST ALL ITALIAN STEEL
FIRMS AND LITTLE PROSPECT FOR MAKING FURTHER PROGRESS IN
RESTRAINING IMPORTS AND RAISING PRICES. END SUMMARY.

1. ASSIDER (ASSOCIATION OF LARGER ITALIAN STEEL COMPANIES)
OFFICIAL CHARACTERIZED CURRENT ITALIAN STEEL SITUATION AS
STILL VERY BAD. HE BELIEVED ALL LARGE AND MEDIUM ITALIAN

STEEL COMPANIES, WHETHER PRIVATE OR STATE CONTROLLED, WERE LOSING MONEY WITH THE EXCEPTION OF FALCK AND REDAELLI. COMMENT: JUST CONCLUDED FALCK ANNUAL MEETING ANNOUNCED PROFIT IN 1977 OF ABOUT \$2.7 MILLION AND APPROVED A CAPITAL INCREASE OF ABOUT \$19.3 MILLION TO A TOTAL OF NEARLY \$57.9 MILLION.) HE DENIED THAT THERE IS A CURRENT RISE IN ORDERS IN ITALY AS HAS BEEN REPORTED ELSEWHERE IN EUROPE, BUT CONCEDED THAT THERE HAD BEEN AN INCREASE A FEW MONTHS AGO IN CONNECTION WITH INVENTORY REBUILDING. THIS HE CONSIDERED A SLIGHT TEMPORARY IMPROVEMENT AND NOT AN INDICATION OF A LONGER TERM TREND.

2. PRICES, HE BELIEVED, HAD IMPROVED GENERALLY BY TWO OR THREE PERCENT FOLLOWING RECENT FIVE PERCENT INCREASE IN EC MINIMUM PRICES. HE EXPLAINED THE RECENTLY ANNOUNCED REORGANIZATION OF ASSIDER AS AN ATTEMPT PRIMARILY TO IMPROVE THE QUALITY OF PRICE INFORMATION BEING MADE AVAILABLE TO ASSIDER, BUT HE DOUBTED THAT ASSIDER WOULD BECOME A SOURCE OF RELIABLE, PUBLIC PRICE INFORMATION. (COMMENT: ASSIDER IS TO BE DIVIDED INTO SEVEN FUNCTIONAL GROUPS WHICH IS INTENDED TO PERMIT THE LEADERSHIP AND STAFF OF EACH GROUP TO BE FUNCTIONAL SPECIALISTS AND BETTER ABLE TO COLLECT AND EVALUATE INFORMATION SUPPLIED BY FIRMS OR DIVISIONS OF FIRMS IN EACH GROUP. IT HAS BEEN ANNOUNCED THAT THESE IMPROVEMENTS ARE BEING SOUGHT TO SUPPORT EUROPEAN COMMUNITY'S DAVIGNON PLAN.) LIMITED OFFICIAL USE

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3. HE STATED THAT ASSIDER HAD NOT YET BEEN APPROACHED BY ITALSIDER OFFICIALS WHO AD INDICATED THEY WOULD TRY TO CONVINCE ASSIDER TO COLLECT AND PROVIDE PRICE INFORMATION TO US CUSTOMS OFFICIALS IN CONNECTION WITH THE U.S. TRIGGER PRICE MECHANISM. HE MAINTAINED THAT THE BEST INFORMATION AVAILABLE ON IRON AND STEEL PRICES IN ITALY ARE THE MILAN COMMODITY EXCHANGE PRICES PUBLISHED EVERY 15 DAYS BY THE MILAN CHAMBER OF COMMERCE AND SUBSEQUENTLY PRINTED IN THE MILAN BUSINESS DAILY, IL SOLE - 24 ORE. DESPITE SUBSEQUENT COMMENTS ABOUT DISCOUNTED OR NEGOTIATED PRICES HE CLAIMED THE MILAN CHAMBER OF COMMERCE DATA IS SUFFICIENTLY REPRESENTATIVE TO USE IN CONNECTION WITH THE TRIGGER PRICE SYSTEM.

4. OUR SOURCE CLAIMED THAT FINSIDER (STATE CONTROLLED STEEL HOLDING COMPANY) SUBSIDIARIES ARE SELLING A LARGE SHARE OF DOMESTICALLY SOLD STEEL UNDER AN ARRANGEMENT BY WHICH THE STEEL IS CONSIGNED TO THE BUYER IMMEDIATELY WITH NO FIXED DEADLINE FOR ACTUAL PAYMENT AND AN UNDERSTANDING THAT THE PRICE WILL NOT BE HIGHER THAN THE PRICE PREVAILING ON THE DATE OF CONSIGNMENT.

THIS PRACTICE, HE INDICATED, IMPROVES THE SALES RECORD OF FINSIDER FIRMS, HELPS PREVENT THEIR ALREADY HIGH INVENTORIES FROM BEING STILL HIGHER AND RELIEVES THEM OF WAREHOUSING PROBLEMS AND COSTS. THIS PRACTICE WOULD LEAD TO FUTURE PROBLEMS, HOWEVER, AS DOMESTIC STEEL USERS ARE NOW BUILDING UP LARGE INVENTORIES AND WILL SOON LIMIT BOTH ACCEPTANCES OF DELIVERIES AND PURCHASES.

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5. STEEL IMPORTS FINALLY APPEAR TO BE DECLINING ACCORDING TO THE ASSIDER OFFICIAL ALTHOUGH HE DID NOT PROVIDE IMPORT DATA. HE CREDITED THE EC ANTI-DUMPING PROGRAM WITH HAVING ACHIEVED THAT RESULT. HE BELIEVED IT WOULD BE DIFFICULT, HOWEVER, FOR EC TO MAKE MUCH FURTHER PROGRESS IN RESTRAINING STEEL IMPORTS IN FACE OF LOW PRICES, DUMPING AND GROWING ITALIAN IMPORTER TENDENCY TO OVERINVOICE STEEL IMPORTS. OVERINVOICING, HE SAID, IS BEING USED TO BUILD UP ITALIAN AND

EXPORTER FOREIGN EXCHANGE HOLDINGS IN SWITZERLAND,
CANADA AND THE U.S.
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6. EC MINIMUM PRICE MECHANISM IS BEING CIRCUMVENTED, ACCORDING TO OUR INTERLOCUTOR, BY IMPORTING SLIGHTLY ALTERED PRODUCTS FROM THOSE COVERED BY THE MECHANISM AND, THEREFORE, NOT SPECIFICALLY COVERED BY IT (E.G. COATED OR OTHERWISE PROCESSED PRODUCTS). INVOICE PRICES ARE ALSO OFTEN QUOTED CIF IMPORTER'S WAREHOUSE AND CONSEQUENTLY INCLUDE ADDITIONAL EXPENSES WHICH ARE DIFFICULT TO DETERMINE. ASSIDER, AT THE REQUEST OF THE MINISTRY OF FINANCE, IS NOW COOPERATING WITH FINANCE AND MINISTRY OF FOREIGN TRADE TO CLOSELY EXAMINE INVOICES AND IDENTIFY FRAUDULENT DATA. ASSIDER OFFICIAL FREELY ADMITTED MEASURE TO CONCENTRATE CUSTOMS INSPECTION OF STEEL IMPORTS IN JUST A FEW PORTS OF ENTRY (REFTEL AND PREVIOUS REPORTS) HAD BEEN AN EFFORT TO RESTRAIN STEEL IMPORTS.

7. WHEN EMBOFF COMMENTED THAT EC COMMISSION AND CON-SORTIUM OF FRENCH, BELGIUM AND GERMAN CONSUMERS SEEMED TO HAVE REACHED AN UNDERSTANDING WITH THE BRESCIAN STEEL INDUSTRY ON MINIMUM PRICES, ASSIDER OFFICIAL LAUNCHED INTO LENGTHY CHARACTERIZATION OF BRESCIANI STEEL FIRMS. HE SAID THEY ARE MOSTLY FAMILY OPERATED PLANTS WHICH PRODUCE MAINLY CONCRETE REINFORCING RODS AND WHICH REQUIRE AN INVESTMENT OF AS LITTLE AS \$50,000. HE CLAIMED THESE OPERATORS ARE FREQUENTLY VERY ASTUTE AND RAPID DECISION MAKERS, CAPABLE OF QUICKLY TAILORING THEIR PRODUCTS TO CHANGING DEMAND. THEY FREQUENTLY DO NOT ISSUE ANY INVOICES FOR DOMESTIC SALES AND THEREFORE PAY LESS THAN OTHER FIRMS IN VALUE ADDED AND MOST OTHER TAXES. PRICES ARE BARGAINED IN EACH TRANSACTION BUT THEY ARE GENERALLY 30 PERCENT TO 40 PERCENT BELOW EC MINIMUMS. OUR SOURCE CONTENDED THAT THE BRESCIANI MAKE A GOOD PROFIT AT
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THESE PRICES, (AT WHICH LARGE MILLS CANNOT POSSIBLY COMPETE) AND THAT THE EC COMMISSION PRESSURE AND THE PURCHASING AGREEMENT WILL NOT SUCCEED IN EXERCISING CONTROL OVER BRESCIANI PRICING.

9. SOURCE CLAIMED THAT EUROPE'S STEEL INDUSTRY IS MOVING INCREASINGLY INTO SPECIAL STEELS AND AWAY FROM BASIC

STEELS. HE SAID BELGIAN INDUSTRY, WITH STRONG HELP
FROM EC COMMISSIONER DAVIGNON, BEING ALMOST COMPLETELY
RENOVATED AS SPECIAL STEEL PRODUCER AND THAT FRENCH
AND FRG INDUSTRY ALSO NOW PRODUCING MANY STEELS FORMERLY
PRODUCED ONLY IN SWEDEN OR U.S. IN ITALY FIAT/TEKSID
IS FOREMOT IN THIS TREND. REMARKING THAT DEVELOPING
COUNTRIES CAN BE EXPECTED CONTINUE INCREASING THEIR LOW
COST STEEL CAPACITY WHILE THEY CONTINUE TO LACK
FABRICATORS AND OTHER STEEL USERS, HE THOUGHT EUROPE
WOULD ALSO BE FORCED TO CONCENTRATE INCREASINGLY ON
FABRICATING STEEL RODUCTS AND MACHINERY WHILE SURRENDERING
A PORTION OF ITS SHARE OF BASIC STEEL CAPACITY.GARDNER

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